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OUR LADY OF THE LAKE HOSPITAL, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Financial Statements and Supplemental Schedule

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Table of Contents

KPMG LLP
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Baton Rouge, LA 70801

Independent Auditors' Report

The Board of Trustees
Franciscan Missionaries of Our Lady Health System, Inc.:

The Board of Directors
Our Lady of the Lake Hospital, Inc:

We have audited the accompanying consolidated balance sheets of Our Lady of the Lake Hospital, Inc. and affiliated organizations (the Medical Center) as of June 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Our Lady of the Lake Hospital, Inc. and affiliated organizations as of June 30, 2012 and 2011, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1(u) to the consolidated financial statements, in fiscal 2012 the Medical Center changed its method of accounting for insurance recoveries as a result of the adoption of ASU 201-24, *Presentation of Insurance claims and Related Insurance Recoveries*, which amended ASC Subtopic 954-450, *Health Care Entities – Contingencies*. The fiscal 2011 consolidated financial statements were restated to reflect the resultant new presentation of insurance recoveries.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 9, 2012, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit

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performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

October 9, 2012

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Consolidated Balance Sheets

June 30, 2012 and 2011

(In thousands)

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	122,126	152,778
Short-term investments		15,043	15,214
Patient accounts receivable, net of allowance for uncollectible accounts of $39,795 and $32,964 in 2012 and 2011, respectively		105,449	103,585
Other current assets		44,061	47,943
Total current assets		286,679	319,520
Assets limited as to use, net of current portion		465,975	482,003
Property and equipment, net		508,172	452,999
Other assets		53,363	49,509
Total assets	$	1,314,189	1,304,031
Liabilities and Net Assets			
Current liabilities:			
Current installments of long-term debt	$	9,627	9,186
Current portion of capital lease obligations		1,144	1,723
Accounts payable		27,233	28,318
Other current liabilities		95,048	91,244
Total current liabilities		133,052	130,471
Professional and general liabilities		15,614	15,355
Long-term debt, excluding current installments		201,586	211,335
Capital lease obligations, excluding current installments		959	1,683
Accrued pension cost		188,003	108,138
Other long-term liabilities		19,597	19,536
Total liabilities		558,811	486,518
Net assets:			
Unrestricted		728,251	791,619
Temporarily restricted		19,253	17,144
Permanently restricted		5,300	5,300
Total net assets attributable to Our Lady of the Lake Hospital, Inc.		752,804	814,063
Noncontrolling interests		2,574	3,450
Total net assets		755,378	817,513
Commitments and contingencies			
Total liabilities and net assets	$	1,314,189	1,304,031

See accompanying notes to consolidated financial statements.

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Consolidated Statements of Operations

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Changes in unrestricted net assets:			
Unrestricted revenues:			
Net patient service revenue	$	726,762	820,520
Other revenue		67,207	62,596
Equity in income from equity investees, net		5,183	4,306
Total unrestricted revenues		799,152	887,422
Net assets released from restrictions used for operations:			
Satisfaction of program restrictions		2,448	4,943
Expiration of time restrictions		133	125
Total net assets released from restrictions used for operations		2,581	5,068
Total unrestricted revenues and other support		801,733	892,490
Operating expenses:			
Salaries and wages		270,457	255,118
Employee benefits		56,938	67,304
Total salaries, wages, and benefits		327,395	322,422
Provision for uncollectible accounts		77,342	66,880
Physician fees		14,707	10,657
Professional services		9,249	9,135
Other services		125,460	111,110
Leases, insurance, and utilities		20,952	20,120
Supplies		148,701	143,357
Other		1,580	19,955
Depreciation and amortization		29,307	27,312
Interest		10,293	10,458
Total operating expenses		764,986	741,406
Operating income		36,747	151,084

(Continued)

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Operations

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Nonoperating gains (losses):			
Investment return		(4,312)	83,025
Other		(3,150)	(3,492)
Total nonoperating gains (losses), net		(7,462)	79,533
Noncontrolling interests		(832)	(650)
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to Our Lady of the Lake Hospital, Inc.		28,453	229,967
Pension related changes other than net periodic pension cost		(78,825)	41,118
Other		(1,848)	—
Capital transfers to Franciscan Missionaries of Our Lady Health System, Inc.		(11,148)	(7,419)
Increase (decrease) in unrestricted net assets	$	(63,368)	263,666

See accompanying notes to consolidated financial statements.

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Net assets, beginning of year	$	817,513	554,280
Unrestricted revenues, gains, and other support in excess of expense and losses attributable to Our Lady of the Lake Hospital, Inc.		28,453	229,967
Pension related changes other than net periodic pension cost		(78,825)	41,118
Other		(1,848)	—
Capital transfers to Franciscan Missionaries of Our Lady Health System, Inc.		(11,148)	(7,419)
Increase (decrease) in unrestricted net assets		(63,368)	263,666
Changes in temporarily restricted net assets:			
Contributions		4,662	4,986
Other		28	—
Net assets released from restrictions		(2,581)	(5,068)
Increase (decrease) in temporarily restricted net assets		2,109	(82)
Change in noncontrolling interest:			
Unrestricted revenues, gains, and other support in excess of expense and losses		832	650
Distributions		(1,708)	(1,001)
Change in noncontrolling interest		(876)	(351)
Change in net assets		(62,135)	263,233
Net assets, end of year	$	755,378	817,513

See accompanying notes to consolidated financial statements.

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(62,135)	263,233
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		29,307	27,312
Provision for uncollectible accounts		77,342	66,880
Distribution to noncontrolling interest		1,708	—
Loss on sale of property and equipment		2,287	1,479
Net realized and unrealized losses (gains) on assets limited as to use and investment securities		8,400	(80,319)
Capital transfers to Franciscan Missionaries of Our Lady Health System, Inc.		11,148	7,419
Pension related changes other than net periodic pension costs		78,825	(41,118)
Equity in income from equity investees, net		(5,183)	(4,306)
Amortization of net premium on bond issues		(220)	(220)
Changes in operating assets and liabilities:			
Short-term investments		171	4,962
Receivables		(74,916)	(71,746)
Inventories		67	(146)
Prepaid expense and other assets		(1,707)	(3,396)
Due from affiliates		(152)	—
Accounts payable, accrued expenses, and liabilities		2,441	36,769
Professional and general liabilities		259	1,661
Net cash provided by operating activities		67,642	208,464
Cash flows from investing activities:			
Decrease in cash and government securities held as collateral under securities lending transactions		—	121
Capital expenditures		(85,237)	(52,892)
Proceeds from sale of property and equipment		67	34
Distributions and other changes in investment in equity investees		2,977	3,875
Change in assets limited as to use		7,366	(1,166)
Acquisition of assets		—	(6,084)
Net cash used in investing activities		(74,827)	(56,112)

(Continued)

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Cash flows from financing activities:			
Decrease in liability under securities lending transactions		—	(121)
Repayment of long-term debt		(9,308)	(8,831)
Repayment of capital lease obligations		(1,303)	(1,549)
Net distributions to noncontrolling interests		(1,708)	(1,001)
Capital transfers to Franciscan Missionaries of Our Lady Health System, Inc.		(11,148)	(7,419)
Net cash used in financing activities		(23,467)	(18,921)
Net (decrease) increase in cash and cash equivalents		(30,652)	133,431
Cash and cash equivalents, beginning of year		152,778	19,347
Cash and cash equivalents, end of year	$	122,126	152,778

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Our Lady of the Lake Hospital, Inc. (d.b.a. Our Lady of the Lake Regional Medical Center – herein, the "Medical Center") is a not-for-profit, non-stock, membership corporation of which Franciscan Missionaries of Our Lady Health System, Inc. (FMOLHS) is the sole member and has sole voting control. The Medical Center is currently licensed for 730 beds and is located in Baton Rouge, Louisiana.

Other significant controlled affiliates of FMOLHS include the corporations that operate Our Lady of Lourdes Regional Medical Center (Lourdes) in Lafayette, Louisiana, St. Francis Medical Center (St. Francis) in Monroe, Louisiana, and Our Lady of the Lake Ascension Community Hospital, Inc. (d.b.a. St. Elizabeth Hospital) in Gonzales, Louisiana. FMOLHS is a wholly owned subsidiary of Franciscan Missionaries of Our Lady in Baton Rouge, Louisiana (FMOL).

The consolidated financial statements include the accounts of the Medical Center, including Our Lady of the Lake Foundation (the Foundation), an entity that is organized exclusively for charitable, religious, scientific, and educational purposes, and the Medical Center's wholly owned and majority owned subsidiaries and other controlled affiliates, which include the following:

- Our Lady of the Lake College, Inc. (the College), a not-for-profit entity that is organized as a health-service degree-granting institution;
- Our Lady of the Lake Assumption Community Hospital, Inc. (d.b.a. Assumption Hospital), a not-for-profit subsidiary of the Medical Center, currently licensed for 15 beds as a Critical Access Hospital;
- Perkins Plaza Medical Arts Development, LLC, a taxable, 51% owned subsidiary of the Medical Center, a property management company that rents facilities to an ambulatory surgery center;
- Nuclear Imaging, LLC, a taxable, 66.67% owned subsidiary of the Medical Center, a positron emission tomography (PET) imaging company;
- Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., entities organized to develop, construct, and manage the operations of living facilities for the elderly and handicapped of the Greater Baton Rouge area;
- Ollie Steele Burden Manor, Inc., an entity that operates two nursing homes in Baton Rouge;
- Perkins Plaza Imaging Development, LLC, a taxable, 61.31% owned subsidiary of the Medical Center, a property management company that rents facilities to an imaging center;
- St. Bernard Health Center, a wholly owned subsidiary of the Medical Center, a healthcare clinic;
- Our Lady of the Lake Physician Group, LLC, a wholly owned subsidiary of the Medical Center, an entity that operates physician clinics throughout the Greater Baton Rouge area; and

- Healthcare Centers in Schools, a not-for-profit LLC operating in the Greater Baton Rouge area delivering innovative, quality, cost-effective school-based health services.

In addition, the Medical Center also has ownership interests in the following organizations, the investments in which are accounted for using the equity method in recognition of the Medical Center's influence over operations and/or significant ownership interest:

- 50% investment in Convenient Care, LLC, an after-hours clinic;
- 13.75% investment in Regional Eye Surgery Center, an ambulatory center;
- 29.37% investment in Baton Rouge Physical Therapy-Lake, an outpatient rehabilitation center;
- 46% investment in Perkins Plaza Ambulatory Surgery Center (Perkins Plaza ASC), an outpatient surgery center;
- 49% investment in Surgical Specialty Center of Baton Rouge, a surgical specialty hospital; and
- 48% investment in Capital Area Shared Services Organization, LLC, a provider of healthcare technology services

The significant accounting policies used by the Medical Center in preparing and presenting its consolidated financial statements follow:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Medical Center, its wholly owned and majority owned subsidiaries, and other affiliates whose operations are significantly controlled by the Medical Center or its Board of Directors. All significant intercompany balances and transactions have been eliminated in consolidation. Third party equity interest in the consolidated subsidiaries are reflected as noncontrolling interest in the Medical Center's consolidated financial statements. For subsidiaries in which the Medical Center does not have a controlling interest, the Medical Center records such investments under the equity method of accounting.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for general and professional liability claims, reserves for workers' compensation claims, reserves for employee healthcare claims, estimated third-party payor settlements, certain investments in alternative funds, useful lives of fixed assets, and the actuarially determined benefit liability related to the Medical Center's pension plan and postretirement health plan. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions. In addition, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

(c) Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased, excluding amounts held as short-term investments and assets limited as to use.

(d) Investments and Investment Return

The Medical Center's investments, as outlined in note 2, are held in two distinct groups:

- The Medical Center's proportionate interest in the FMOLHS aggregate investment "pool." The Medical Center does not make individual investment decisions for these investments and relies on the centralized treasury functions of FMOLHS to make routine investment decisions consistent with FMOLHS's defined policies regarding credit risk, rate risk, maturity ladder, return-on-investment targets, and other criteria; and
- Investments held individually in the Medical Center's name, managed by the Medical Center's treasury function.

Pooled investments held at FMOLHS are comprised of a diversified portfolio of debt securities, equity securities, and other investments. Current value of the Medical Center's share in the "pool" is equal to contributions to and withdrawals from the pool, plus the Medical Center's pro rata share of investment gains or losses.

The Medical Center's investments in equity securities with readily determinable fair values and all investments in debt securities, except for investments in the common stock of equity investees accounted for using the equity method, are recorded at fair value. The estimated fair value of these investments is based on quoted market prices.

Realized and unrealized gains and losses on investments recorded at fair value, alternative assets recorded at net asset value, changes in the carrying value of alternative assets recorded on the equity method, and the pro rata share of investment gains or losses in the pooled investments held at FMOLHS are included in the consolidated statements of operations as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or law. Dividend, interest, and other investment income are recorded as increases in unrestricted net assets unless the use is restricted by donor. Donated investments are recorded at fair value at the date of receipt.

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(e) *Inventories*

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (average cost method) or market.

(f) *Assets Limited as to Use*

Assets limited as to use include the following:

- Assets set aside by the board of directors for future capital acquisitions, capital improvements, securities lending, and debt service, over which the board retains control and may at its own discretion subsequently use for other purposes.
- Assets held by trustees under indenture agreements, self-insurance trust arrangements, and the terms of donor restrictions.

Amounts required to satisfy current requirements for the payment of current construction costs and debt service costs are classified as current assets in the accompanying consolidated balance sheets.

(g) *Components of Net Assets*

Net assets, revenues, and other support and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Medical Center and changes therein are classified and reported as follows:

Unrestricted Net Assets – Unrestricted net assets are net assets whose use is not restricted by donors, even though their use may be limited in other respects such as by contracts or by board designation.

Temporarily Restricted Net Assets – Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met either by actions of the Medical Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets – Permanently restricted net assets are net assets subject to donor-imposed stipulations that are maintained permanently by the Medical Center. Generally, the donors of these assets permit the Medical Center to use all or part of the income earned on related investments for specific or general purposes.

Unrealized gains and losses are recorded as temporarily restricted net assets if the terms of the gift restrict the use of the income. Permanently restricted net assets are increased if the terms of the gift that gave rise to the investment requires the unrealized gain be added to the principal of a permanent endowment.

Generally, losses on the investments of restricted endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets, but can be restored through subsequent investment gains.

(h) Bond Issuance Costs

Bond issuance costs are being amortized over the terms of the related bond issues using a method that approximates the effective interest method. The costs of letters of credit and standby purchase agreements are being amortized over the term of the related agreement using a method that approximates the effective interest method. Accumulated amortization of bond issuance cost was $2,369 and $2,149 at June 30, 2012 and 2011, respectively.

(i) Property and Equipment

Property and equipment, including leasehold improvements, are stated at cost upon acquisition or fair value if donated. Depreciation is computed primarily on the straight-line method based upon the shorter of the estimated useful lives of the assets or the lease term. Equipment under capital leases is amortized using the straight-line method over the shorter of the lease term of the equipment or its useful life. Such amortization is included in depreciation and amortization expense in the accompanying consolidated financial statements.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, unless explicit donor stipulations specify asset usage. Gifts of long-lived assets with explicit restrictions that specify asset usage and gifts of cash or other assets earmarked for long-lived assets are reported as restricted support. Absent explicit donor time stipulations addressing the long-lived assets, the Medical Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Contributions restricted for the purchase of property and equipment for which restrictions are met within the same year as the contributions are received are reported as increases in unrestricted net assets in the accompanying consolidated financial statements.

(j) Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired, or goodwill, included in other assets, is the amount by which purchase price exceeds the fair value of assets acquired. Separable intangible assets that are not deemed to have an indefinite life are amortized over their useful lives.

Cost in excess of net assets acquired is reviewed for impairment at least annually or more frequently if circumstances indicate potential impairment. The cost in excess of net assets acquired impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including cost in excess of net assets acquired). If the fair value of the reporting unit is less than its carrying value, an indication of cost in excess of net assets acquired impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement).

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Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's cost in excess of net assets acquired over the implied fair value of that cost in excess of net assets acquired. The implied fair value of cost in excess of net assets acquired is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit cost in excess of net assets acquired. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

The FASB issued ASU 2011-08, *Testing Goodwill for Impairment*, in September 2011. ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step test for impairment of goodwill as described in note 1(j). If an entity concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. The Medical Center's adoption of this ASU in fiscal year 2012 did not have an impact on its consolidated financial statements.

(k) Capitalization of Interest

The Medical Center capitalizes the interest cost of borrowings, net of related investment income on the unexpended funds, during the construction period of major projects as a component of the asset. The Medical Center capitalized net interest expense of $291 for the year ended June 30, 2011. The Medical Center did not capitalize net interest expense during the year ended June 30, 2012.

(l) Impairment of Long-lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Medical Center first compares the undiscounted future cash flows expected to be generated by the assets to its carrying value. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party appraisals, as considered necessary.

Assets to be disposed of are separately presented in the accompanying consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale are presented separately in the asset and liability sections of the accompanying consolidated balance sheets.

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(m) ***Estimated Workers' Compensation, Professional Liability, and Employee Health Claims***

The provisions for estimated workers' compensation, professional liability and employee health claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported. These estimates incorporate the Medical Center's past experience, as well as other considerations including the nature of claims, industry data, relevant trends and/or the use of actuarial information.

(n) ***Consolidated Statements of Operations***

Transactions deemed to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Investment return, consisting of dividends and interest earned on investments, as well as realized and unrealized gains and losses on the investment portfolio, and gains and losses on asset disposals are reported as nonoperating gains or losses.

The consolidated statements of operations include unrestricted revenues, gains, and other support in excess of expenses and losses, which is an indicator of financial performance. Changes in unrestricted net assets that are excluded from unrestricted revenues, gains, and other support in excess of expenses and losses include permanent transfers of assets to and from affiliates for other than goods and services, pension related changes other than net periodic pension cost, the cumulative effects of accounting changes, and contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets).

(o) ***Net Patient Service Revenue***

Net patient service revenue is recognized as services are performed and is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and are adjusted as final settlements are determined.

(p) ***Charity Care***

The Medical Center provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

The Medical Center maintains records to identify and monitor the level of charges forgone that are associated with the charity care it provides. Charges forgone, based on established rates, totaled $11,429 and $13,835 for the years ended June 30, 2012 and 2011, respectively.

The Medical Center does not include charity care in net patient service revenue. The cost of charity care provided for the years ended June 30, 2012 and 2011 were $4,468 and $6,489, respectively. The Medical Center estimated these costs by calculating a ratio of cost to gross charges and then by multiplying that ratio by the gross charity charges associated with providing care to charity patients.

(q) *Electronic Health Record Incentive Program*

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments beginning in 2011 for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The Medical Center utilizes a contingency accounting model to recognize EHR incentive revenues. The Medical Center records EHR incentive revenue when the Medical Center has actually complied with the meaningful use criteria for a full reporting period and when all uncertainties and contingencies are resolved prior to the recognition of income. In fiscal year 2012, the Medical Center recorded EHR incentive revenues of $6,501, comprised of $2,829 of Medicare revenues and $3,672 of Medicaid revenues. EHR incentive revenues are included in net patient service revenue in the accompanying consolidated statements of operations. There were no EHR incentive receivables from Medicare and Medicaid at June 30, 2012 or 2011. The Medical Center did not recognize any EHR incentive revenues for the year ended June 30, 2011.

(r) *Income Taxes*

The Medical Center is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as organizations described in IRC Section 501(c)(3). Certain of the Medical Center's subsidiaries are subject to Federal and state income taxes, provisions for which have been reflected in the accompanying consolidated financial statements. The amounts of such provisions are not material.

The Medical Center recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. No reserves for uncertain tax position have been recorded.

(s) *Fair Value Measurements*

The Medical Center applies Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes an enhanced framework for

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measuring fair value and expands disclosures about fair value measurements, including those required for certain investments in funds that do not have readily determinable fair values including private equity investments, hedge funds, real estate, and other funds. ASC Topic 820 permits, as a practical expedient, for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances, may not equal fair value pursuant to other requirements of ASC Topic 820.

The Medical Center also follows Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*, which amended Topic 820. ASU 2010-06 requires that the Medical Center provide additional enhanced disclosures related to its fair value measurements.

The Medical Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Medical Center determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

(t) Fair Value Option

ASC Subtopic 825-10, *Financial Instruments* – Overall gives the Medical Center the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. The Medical Center has not elected to apply the fair value option to any assets or liabilities.

(u) New Accounting Pronouncements

Recently Adopted

The FASB issued ASU 2010-23, *Health Care Entities* (Topic 954): *Measuring Charity Care for Disclosure*, in August 2010. ASU 2010-23 amends ASC Subtopic 954-605, *Health Care Entities – Revenue Recognition*, to require that cost be used as the measurement basis for charity care disclosure purposes. The method used to estimate such costs as well as any funds received to offset or subsidize charity services provided should also be disclosed. The Medical Center's adoption of this ASU in fiscal year 2012 did not have an impact on its consolidated financial statements.

The FASB issued ASU 2010-24, *Health Care Entities* (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries*, in August 2010. ASU 2010-24 amends ASC Subtopic 954-450, *Health Care Entities – Contingencies*, to clarify that a health care entity should not net insurance recoveries against a related liability and the claim liability should be determined without consideration of insurance recoveries. The impact of the Medical Center's adoption of this ASU in fiscal year 2012 was an increase of other current assets and other current liabilities of $702 and $810, and other assets and professional and general liabilities of $13,167 and $12,167, at June 30, 2012 and 2011, respectively.

Recently Issued

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This ASU will change the Medical Center's presentation of provision for uncollectible accounts in the consolidated statements of operations from operating expenses to a deduction from net patient service revenue. It also expands disclosures regarding policies for recognizing revenue, assessing contra revenue line items, and activity in the allowance for uncollectible accounts. The ASU is effective for the Medical Center's fiscal year 2013.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. A nonpublic entity is required to apply the ASU prospectively for annual periods beginning after December 15, 2011. The Medical Center expects that the adoption of ASU 2011-04 in fiscal year 2013 will not have a material impact on its consolidated financial statements.

(v) ***Current Economic Environment***

In light of the current sluggish recovery of the U.S. economy, the Medical Center's management monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective. Management recognizes that economic conditions may continue to impact the Medical Center in a number of ways, including (but not limited to) uncertainties associated with U.S. financial system reform and rising self-pay patient volumes and corresponding increases in uncompensated care.

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the impacts of the federal healthcare reform legislation, which was passed in the spring of 2010. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Significant (and potentially unprecedented) capital investment in healthcare information technology (HCIT);
- Continuing volatility in the state and federal government reimbursement programs;
- Lack of clarity related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding exchange reimbursement levels, changes in combined state/federal disproportionate share payments, and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system;
- Effective management of multiple major regulatory mandates, including achievement of meaningful use of HCIT and the transition to ICD-10; and
- Significant potential business model changes throughout the healthcare ecosystem, including within the healthcare commercial payor industry.

The business of healthcare in the current economic, legislative, and regulatory environment is volatile. Any of the above factors, along with others both currently in existence and which may or may not arise in the future, could have a material adverse impact on the Medical Center's financial position and operating results.

(2) Short-Term Investments and Assets Limited as to Use

Short-term investments consist of the following:

	2012	2011
Pooled investments held at FMOLHS	$ 15,043	15,214

(in thousands)

The composition of assets limited as to use at June 30, 2012 and 2011 is as follows:

	2012			
	Board designated for capital	Trusteed bond funds	Other	Total
Pooled investments held at FMOLHS	$ 452,387	—	—	452,387
Cash and cash equivalents	6,165	11,917	1,790	19,872
Marketable equity securities:				
U.S. companies	—	—	3,550	3,550
International companies	—	—	414	414
Fixed income securities:				
Corporate	—	—	1,834	1,834
Other	—	—	937	937
Accrued interest receivable	367	—	—	367
	458,919	11,917	8,525	479,361
Less amounts classified as current assets	913	11,917	556	13,386
Noncurrent portion	$ 458,006	—	7,969	465,975

	2011				
	Board designated for capital	Self-insurance trust funds	Trusteed bond funds	Other	Total
Pooled investments held at FMOLHS	$ 446,920	—	—	—	446,920
Cash and cash equivalents	26,255	1,437	11,718	1,783	41,193
Marketable equity securities:					
U.S. companies	—	—	—	3,812	3,812
Fixed income securities:					
U.S. agency	—	—	—	325	325
Corporate	—	—	—	1,519	1,519
Other	—	—	—	952	952
Accrued interest receivable	403	3	—	—	406
	473,578	1,440	11,718	8,391	495,127
Less amounts classified as current assets	825	—	11,718	581	13,124
Noncurrent portion	$ 472,753	1,440	—	7,810	482,003

(Continued)

(a) ***Board Designated for Capital***

In accordance with Board approval, the Medical Center has designated assets to fund future capital acquisitions and improvements.

Board designated for capital investments are held in a JP Morgan Chase Bank (the custodian) custodial account. Through usage of unitized accounting, these investments are segregated from those of Lourdes and St. Francis. Investments held as board designated for capital are managed by several money managers, which focus on different investment strategies and provide diversity to the investments.

(b) ***FMOLHS Investments***

FMOLHS invests in alternative assets such as hedge funds, private equity funds, and commingled funds. When FMOLHS's investment in alternative assets represents investments organized as corporations, or trusts with legal structures similar to a corporation, with ownership less than 20%, and the investment has a readily determinable value and transacts frequently (at least quarterly), FMOLHS accounts for these investments at net asset value as a practical expedient to fair value. When FMOLHS's investment in alternative assets represents investments organized as limited partnerships, or limited liability companies with specific ownership accounts or trusts with legal structures similar to a corporation, FMOLHS accounts for these investments using the equity method, which generally approximates net asset value.

The net asset value for alternative assets for which quoted market prices are not available is based on the most recent valuations provided by the external investment managers, adjusted for receipts and disbursements through June 30. FMOLHS reviews and evaluates the values provided by the managers and agrees with the valuation methods and assumptions used to determine those values. Therefore, the Medical Center believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because alternative assets are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

(in thousands)

The composition of investments held at FMOLHS is as follows:

		2012	2011
Asset category:			
Cash	$	28,673	39,515
Equity securities:			
U.S. companies		99,587	95,643
International companies		76,134	82,785
Real assets		52,269	61,843
Fixed income securities:			
U.S. government guaranteed		2,975	1,535
U.S. agency		17,235	12,121
Corporate		30,178	32,553
Municipal		1,278	1,465
Other		69,229	63,323
Emerging markets		32,528	19,647
Alternative asset funds:			
Hedge funds		186,962	185,255
Private equity funds		80,847	69,811
Total	$	677,895	665,496

The Medical Center has a 69% ownership in these investments at June 30, 2012 and 2011.

(c) *Self-insurance Trust Funds*

The self-insurance trust funds represent amounts designated to pay certain self-insured losses (see note 18).

(d) *Trusteed Bond Funds*

Certain trusteed bond funds have been established in accordance with the requirements of indentures related to the Medical Center's bond obligations. The trusteed bond funds consist of principal and interest funds in the amounts of $11,917 and $11,718 at June 30, 2012 and 2011, respectively. No construction funds were remaining at June 30, 2012 or 2011.

The bond funds are used for the payment of principal and/or interest on the Series 1998, 2005, 2008, and 2009 bonds, as well as to fund new capital projects financed by that issue. Amounts classified as current represent funds deposited to pay related debt service costs classified as current liabilities. Information regarding the Medical Center's debt obligations is included in note 9.

(in thousands)

(e) Other

Other assets limited as to use as of June 30, 2012 and 2011 consist of cash on deposit held for the following purposes:

		2012	2011
Scholarships – limited by donor	$	147	169
Health care services – limited by donor		7,073	6,952
Resident deposits		141	104
Escrow, security deposits, and surplus cash		260	258
Capital improvement – limited by grantor agency		904	908
		8,525	8,391
Less amounts classified as current		556	581
Noncurrent portion	$	7,969	7,810

All investments are considered "trading" for accounting purposes. All unrestricted investment income, including both realized and unrealized gains and losses, is included in unrestricted revenues, gains, and other support in excess of expenses and losses. The investment return for the years ended June 30, 2012 and 2011 is summarized as follows:

		2012	2011
Dividends and interest (net of expenses of $1,284 and $1,533, respectively)	$	4,088	2,706
Realized and unrealized (losses) gains, net		(8,400)	80,319
Investment return	$	(4,312)	83,025

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets, statements of operations, and statements of change in net assets.

(in thousands)

(3) Other Current Assets

The composition of other current assets at June 30, 2012 and 2011 follows:

		2012	2011
Other receivables	$	6,501	10,792
Inventories		10,704	10,771
Prepaid expenses and other current assets		12,616	12,446
Due from affiliate		152	—
Insurance receivable		702	810
Assets limited as to use – required for current liabilities		13,386	13,124
	$	44,061	47,943

(4) Property and Equipment

A summary of property and equipment as of June 30, 2012 and 2011 is as follows:

		2012	2011	Estimated useful lives
Land	$	75,863	75,885	—
Land improvements		11,141	11,030	2 – 20 years
Buildings and building improvements		421,072	414,830	5 – 40 years
Fixed equipment		87,732	87,961	5 – 20 years
Movable equipment		177,863	168,882	3 – 20 years
Construction in progress		85,181	17,976	
		858,852	776,564	
Less accumulated depreciation		350,680	323,565	
	$	508,172	452,999	

At June 30, 2012, the Medical Center was obligated under purchase commitments of $176,871 relating to the completion of various construction projects. Included in accounts payable at June 30, 2012 and 2011, respectively, is $4,170 and $2,792 related to the completion of various construction projects and equipment purchases.

(in thousands)

(5) Other Assets

The composition of other assets at June 30, 2012 and 2011 follows:

		2012	2011
Unamortized bond issuance costs, net of accumulated amortization	$	3,140	3,359
Investment in equity investees		27,943	27,955
Insurance receivable		13,167	12,167
Other		9,113	6,028
	$	53,363	49,509

(6) Investment in Equity Investees

The Medical Center's investment in equity investees at June 30, 2012 and 2011, included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2012 and 2011 are as follows:

2012	Ownership interest		Investment in equity investees	Equity in income (deficit) from equity investees
Convenient Care, LLC	50%	$	1,650	197
Regional Eye Surgery Center	14		164	246
Baton Rouge Physical Therapy – Lake	29		466	139
Perkins Plaza ASC	46		620	128
Surgical Specialty Center of Baton Rouge	49		24,702	4,599
Capital Area Shared Services Organization	48		341	(126)
		$	27,943	5,183

(Continued)

(in thousands)

2011	Ownership interest		Investment in equity investees	Equity in income (deficit) from equity investees
Convenient Care, LLC	50%	$	2,079	443
Regional Eye Surgery Center	14		193	229
Baton Rouge Physical Therapy – Lake	29		468	170
Perkins Plaza ASC	46		721	293
Surgical Specialty Center of Baton Rouge	49		24,028	3,186
Capital Area Shared Services Organization	48		466	(15)
		$	27,955	4,306

Surgical Specialty Center of Baton Rouge

The Medical Center has a 49% interest in Surgical Specialty Center of Baton Rouge, a specialty hospital located in Baton Rouge, Louisiana. At June 30, 2012 and 2011, its major assets were property and equipment, which had a net book value of $13,477 and $12,661, respectively, and goodwill, which has a gross book value of $22,015 at June 30, 2012 and 2011. Revenue consists primarily of fees for surgical services.

The cost of the Surgical Specialty Center of Baton Rouge investment in excess of the Medical Center's equity in the net assets at date of acquisition amounts to $22,015, and such excess was being amortized through June 30, 2010. Cost in excess of net assets acquired was subject to goodwill impairment test. No impairment loss was required to be recognized in either 2012 or 2011.

(7) Lines of Credit

At June 30, 2012, the Medical Center did not renew its unsecured working capital lines of credit. A new line of credit will be secured in fiscal year 2013.

(in thousands)

(8) Other Current Liabilities

The composition of other current liabilities at June 30, 2012 and 2011 follows:

		2012	2011
Accrued salaries and related expenses	$	26,896	26,581
Due to third-party payors		46,036	37,328
Accrued interest		2,869	3,086
Accrued expenses and other current liabilities		18,545	22,114
Professional and general liabilities		702	810
Due to affiliates		—	1,325
	$	95,048	91,244

(Continued)

(in thousands)

(9) Long-term Debt

A summary of long-term debt at June 30, 2012 and 2011 follows:

		2012	2011
Obligated Group bonds:			
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998A, $72,560 tax-exempt bonds due in varying installments through fiscal year 2026, with interest fixed at rates ranging from 5.50% to 5.75%	$	25,781	30,007
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998B, $31,050 tax-exempt bonds due in varying installments through fiscal year 2017, with interest fixed at rates ranging from 3.50% to 5.00%		22,800	27,050
Louisiana Public Facilities Authority Hospital Bonds Series 2005A, $80,000 tax-exempt bonds due in varying installments from fiscal year 2032 through fiscal year 2037, with interest fixed at rates ranging from 5.00% to 5.25%		37,534	37,534
Louisiana Public Facilities Authority Hospital Bonds Series 2005B, $50,000 tax-exempt bonds due in varying installments from fiscal year 2014 through fiscal year 2031, which bear interest at a variable rate (0.17% and 0.09% at June 30, 2012 and 2011, respectively)		39,453	39,453
Louisiana Public Facilities Authority Hospital Bonds Series 2005C, $50,000 tax-exempt bonds due in varying installments from fiscal year 2014 through fiscal year 2031, with interest fixed at rates ranging from 4.00% to 6.75%		22,193	22,193
Louisiana Public Facilities Authority Hospital Bonds Series 2005D, $88,325 bonds due in varying installments through fiscal year 2029, which bear interest at a variable rate (0.17% and 0.04% at June 30, 2012 and 2011, respectively)		5,684	5,904

(in thousands)

		2012	2011
Louisiana Public Facilities Authority Hospital Bond Series 2008A, $47,185 bonds due in varying installments through fiscal year 2026, which bear interest at a variable rate (0.20% and 0.08% at June 30, 2012 and 2011, respectively)		23,033	23,117
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2009A, $125,000 bonds due in varying installments from FY2029 through FY2040, with interest fixed at rates ranging from 6.625% to 6.75%		25,000	25,000
Total obligated group bonds		201,478	210,258
Add unamortized premium		1,156	1,278
Total obligated group bonds		202,634	211,536
Other debt:			
Mortgage payable in monthly installments of $23, including interest at 9%, through May 1, 2033, secured by land, building and equipment		2,569	2,609
Mortgage payable in monthly installments of $33, including interest at 5%, through December 2017, secured by land, building and equipment		2,950	3,209
Mortgage payable in monthly installments of $29, including interest at 6.9% through April 2016 with a lump sum due at this time, secured by land and building		3,060	3,167
Total other debt		8,579	8,985
Total long-term debt		211,213	220,521
Less current installments of long-term debt		9,627	9,186
	$	201,586	211,335

FMOLHS and its affiliates participate in an Obligated Group Master Trust Indenture whereby the obligated issuers have agreed to be jointly and severally liable for timely payments due and for the performance and observance of all covenants and agreements pursuant to the trust indenture. FMOLHS directed the proceeds of the borrowed funds to the particular affiliate benefiting therefrom and separate escrow funds are maintained by the Trustee for each of the affiliates to support each affiliate's allocated portion of the bonds. However, as a member of the Obligated Group, the Medical Center is contingently liable for all debt outstanding under the Master Indenture. As of June 30, 2012 and 2011, the Medical Center was contingently liable for $300,935 and $307,721, respectively, which represents total system-wide indebtedness of $503,569 and $519,257, respectively, less the related amounts treated as direct obligations of the Medical Center.

(Continued)

The Master Trust Indenture covering the bond issues contains several covenants, including a current ratio, debt service coverage ratio, and leverage ratio. In addition, the Obligated Group members are subject to restrictions on maintenance of revenue, incurrence of additional debt, disposition of assets, maintenance of insurance, and other restrictions. Obligations of the Obligated Group under the Master Trust Indenture are general obligations secured by the full faith and credit of the Obligated Group. None of the bonds are secured by a mortgage on, or security interest in, any real or personal property or any revenues of FMOLHS or its affiliates.

In 2005, FMOLHS completed a system-wide refinancing for the purposes of advance refunding certain 1998A and 1998C bonds and providing additional capital by issuing four series of revenue bonds. The following bond series were issued by the FMOLHS: $80,000 fixed rate Revenue Bonds (Series 2005A), $100,000 variable rate Revenue Bonds (Series 2005B and Series 2005C in the amounts of $50,000 each), and $89,350 in variable rate Revenue and Refunding bonds (Series 2005D). The variable rate bonds were issued as auction rate securities. The four bond issues total $269,350, of which approximately $83,000 represents refunding of existing bonds and the remainder of approximately $186,000 was designated for capital improvements, including facility modifications and additions and new equipment acquisitions. Of the $186,000 for construction and property additions, approximately $100,000 was allocated to the Medical Center.

In May 2008, FMOLHS tendered its 2005B and 2005C auction rate bonds and reissued 2005B and 2005C bonds at weekly variable interest modes. In July and August 2008, the Series 2005D and Convertible Hospital Revenue and Refunding Series 1998B (Series 1998B) auction rate bonds were tendered by FMOLHS and reissued at daily variable interest modes. In August 2008, the 2008A bonds, which were preapproved by the Authority, were issued by FMOLHS. These bonds, issued in the amount of $47,185, bear interest at a variable rate based upon a weekly index rate and are due in 2025. These bonds refunded $42,735 of the 1998A bonds and $3,225 of the 1998C bonds.

In 2009, FMOLHS completed a system-wide issuance of $125,000 of Hospital Revenue Bonds Series 2009 (the 2009 Series). The proceeds of the 2009 Series were used for (i) acquiring, constructing, and equipping a replacement hospital for Lourdes, (ii) acquiring, constructing and equipping improvement and renovations to the existing Medical Center facilities, to accommodate modern demands for space and utility and building a satellite outpatient facility in Livingston Parish, Louisiana, and (iii) paying the costs of issuance of the bonds.

In addition to the issuance of the 2009 Series, FMOLHS (i) converted the interest rate from the daily variable interest modes to a fixed rate on the Series 1998B and (ii) converted the interest rate from the weekly variable interest modes top a fixed rate on the Series 2005C.

The Medical Center paid interest of $10,400 and $10,158 during the years ended June 30, 2012 and 2011, respectively.

(in thousands)

Aggregate maturities of long-term debt, excluding premiums, at June 30, 2012 are as follows:

Year ending June 30:		
2013	$	9,627
2014		7,462
2015		8,535
2016		10,500
2017		7,925
Thereafter		166,008
Total	$	210,057

The 2005B Series are variable rate demand bonds, which are subject to periodic remarketing. The bonds are backed by letters of credit which expire from February 2015 through February 2016.

In fiscal year 2013, FMOLHS anticipates borrowing approximately $142,825 through the Authority to refinance existing bonds totaling approximately $57,175. The new bonds will fund capital projects at the Medical Center and refinance the Series 2005C bonds. There can be no assurance that the anticipated borrowing as described above will occur.

(10) Interest Rate Swaps

FMOLHS uses interest-rate related derivative instruments to manage its exposure related to changes in interest rates on its variable rate debt instruments. FMOLHS does not enter into derivative instruments for any purpose other than cash flow hedging. FMOLHS does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, FMOLHS exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes FMOLHS, which creates credit risk for FMOLHS. When the fair value of a derivative contract is negative, FMOLHS owes the counterparty and, therefore, FMOLHS is not exposed to the counterparty's credit risk in those circumstances. FMOLHS minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates. The market risk associated with interest-rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

FMOLHS entered into an interest rate swap agreement with Merrill Lynch Capital Services with respect to the 2005D refunding series. Such agreement is intended to reduce the impact of changes in interest rates on the variable rate debt. The swap agreement effectively changes FMOLHS' interest rate exposure on the 2005D variable rate debt to a fixed rate of 3.53%.

(in thousands)

In 2005, FMOLHS also obtained preapproval from the Louisiana Public Facilities Authority for the issuance of revenue refunding bonds in 2008 to advance refund the approximately $48,000 of 1998A and 1998C bonds. In 2005, FMOLHS entered into a forward starting interest rate swap agreement with Goldman Sachs Capital Markets to effectively change FMOLHS' interest rate exposure on the 2008 bonds once issued from a variable rate to a fixed rate of 3.66%.

In June 2007, FMOLHS entered into two Constant Maturity Swaps (CMS) with Merrill Lynch. Under these swap agreements, FMOLHS receives variable rate payments based on the ten-year International Swaps and Derivatives Association Inc. (ISDA) swap rate and makes variable rate payments based on one-month LIBOR. The total notional amount of the first swap is $88,325, with an effective date of July 1, 2008, and the total notional amount of the second swap is $49,075, with an effective date of May 29, 2008.

Because the swap agreements are the obligation of the entire Obligated Group, changes in the fair value of the interest rate swap agreements are reported in the consolidated financial statements of FMOLHS and are not measured at the individual affiliate level; however, the net settlement amount allocated to the Medical Center of $1,228 and $932 during 2012 and 2011, respectively, is included as an increase in interest expense in the consolidated statements of operations. The interest rate swap agreements are not afforded hedge accounting treatment in the consolidated financial statements of FMOLHS and are marked to fair value through the consolidated statements of operations.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets, restricted by time and purpose, at June 30, 2012 and 2011 are available for the following purposes:

	2012	2011
Healthcare services	$ 8,159	6,713
Elderly housing	8,482	8,039
Educational services	2,612	2,392
	$ 19,253	17,144

Permanently restricted assets at both June 30, 2012 and 2011 totaled $5,300, the income from which is restricted for educational services.

(in thousands)

Net assets released from restrictions for the years ended June 30, 2012 and 2011 are as follows:

		2012	2011
Healthcare services	$	2,189	4,417
Educational services		258	125
Elderly housing		134	526
	$	2,581	5,068

(12) Net Patient Service Revenue

The Medical Center has agreements with governmental and other third-party payors that provide for reimbursement to the Medical Center at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors is as follows:

(a) Medicare

Substantially all acute care services are rendered to Medicare program beneficiaries at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive-determination methodologies. The Medical Center is paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2005. Revenue from the Medicare program accounted for approximately 30% and 29% of the Medical Center's net patient service revenue for the years ended June 30, 2012 and 2011, respectively.

(b) Medicaid

Inpatient services rendered to Medicaid beneficiaries are paid at prospectively determined per diem rates. These rates vary according to a hospital classification system that is based on bed size, teaching status, and other factors. Additional outlier payments are paid for neonatal intensive care patients with extended lengths of stay. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Medical Center is paid at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicaid fiscal intermediary. The Medical Center's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2004. Revenue from the Medicaid program accounted for approximately 7% and 5% of the Medical Center's net patient service revenue, excluding payments associated with the Department of Health and Hospitals (DHH) agreement, for the years ended June 30, 2012 and 2011, respectively.

(in thousands)

(c) ***Blue Cross***

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined per diem rates. Outpatient services are paid based on a fee schedule. Revenue from the Blue Cross program accounted for approximately 27% and 23% of the Medical Center's net patient service revenue for the years ended June 30, 2012 and 2011, respectively.

(d) ***Certain Commercial Insurance Carriers, Health Maintenance Organizations, and Preferred Provider Organizations***

Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established charges, prospectively determined per-diem rates, and fee schedules.

The Medical Center's net patient service revenue for the years ended June 30, 2012 and 2011 decreased $8,434 and decreased $2,853, respectively, due to changes in previously estimated allowances as a result of final settlements, closure on years that are no longer subject to audits, resolution of reviews and investigations, and prior year retroactive adjustments.

In the spring of 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law by President Obama. The impact of the Health Care Acts is complicated and difficult to predict, but the Medical Center anticipates its reimbursement in the future will be affected by major elements of the Health Care Acts designed to (1) increase insurance coverage, (2) change provider and payor behavior, and (3) encourage alternative delivery models. Many healthcare reform variables remain unknown and are, among other things, dependent on implementation by federal and state governments and reactions by providers, payors, employers, and individuals. The Medical Center continues to monitor developments in healthcare reform and participates actively in contemplating and designing new programs that are encouraged and/or required by the Health Care Acts.

Presented below is a summary for the years ended June 30, 2012 and 2011 of amounts comprising net patient service revenue:

		2012	2011
Inpatient revenue	$	822,418	790,750
Outpatient revenue		756,320	651,540
Gross patient service revenue		1,578,738	1,442,290
Less provisions for contractual and other adjustments		851,976	621,770
Net patient service revenue	$	726,762	820,520

(in thousands)

(13) Business and Credit Concentrations

The Medical Center grants credit to its patients, most of whom are local residents. The Medical Center generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, and commercial insurance policies). The mix of accounts receivable from patients and third-party payors at June 30, 2012 and 2011 is as follows:

	2012	2011
Medicare	38%	39%
Medicaid	15	14
Blue Cross	14	17
Self-pay	13	14
Managed care/other	20	16
	100%	100%

(14) Related Party Transactions

(a) FMOLHS

The Medical Center pays fees to FMOLHS for administrative support and oversight. Fees paid totaled $44,644 and $34,724 in 2012 and 2011, respectively, and are included in other services in the consolidated statements of operations.

FMOLHS employees are included as covered employees of the Medical Center's defined benefit pension plan (see note 15). For the years ended June 30, 2012 and 2011, FMOLHS' share of the net pension costs was $2,456 and $2,952, respectively.

During the years ended June 30, 2012 and 2011, the Medical Center transferred net assets of approximately $11,148 and $7,419, respectively to fund its allocated share of capital contributions paid by FMOLHS Information Systems.

There were no other significant transactions between the Medical Center and other FMOLHS affiliates during the years ended June 30, 2012 and 2011, except for the contingent liability related to the systemwide bond debt (see note 9) and participation in the joint insurance program (see note 18).

(b) Franciscan Missionaries of Our Lady-North American Province, Inc.

FMOLHS' members include the members of the Council of the Franciscan Missionaries of Our Lady-North American Province, Inc. (Province). Certain members of the Province are included as covered employees of the Medical Center's defined benefit pension plan (see note 15). For the years ended June 30, 2012 and 2011, the Province's share of the net pension cost was $29 and $15, respectively.

(c) ***St. Elizabeth Hospital***

The Medical Center transferred its investment in St. Elizabeth Hospital to FMOLHS during 2005. For the 2012 and 2011 plan years, employees of St. Elizabeth Hospital are included as covered employees of the Medical Center's defined benefit pension plan (see note 15). For the years ended June 30, 2012 and 2011, St. Elizabeth Hospital's share of the net pension cost was $1,703 and $2,322, respectively.

(d) ***Franciscan Fund***

The FMOL Sisters formed the Franciscan Fund (the Fund) to support community programs in the operating areas of the FMOLHS hospitals. Each FMOLHS hospital makes contributions to the Fund based on a percentage of earnings determined by the Fund, then can submit grant applications to the Fund to receive monies back for supporting its community programs. Grant making decisions are made by the FMOL Sisters and no guarantee is provided that each hospital will receive back their specific contribution amounts in the form of a formal grant from the Fund. During 2012 and 2011 the Medical Center made no contributions to the Fund, and recorded no revenues from grants given by the Fund.

(e) ***Capital Area Shared Services Organization***

During 2011, the Medical Center entered into an Operating Agreement with Capital Area Shared Services Organization, a related party. The agreement has an initial term expiring December 2016. The Operating Agreement requires the Medical Center to commit to pay certain sublicense fees relating to its use of the services made available to the related third party and to pay certain implementation and system build costs and other costs contemplated under an information system contract for a period through December 31, 2016. At June 30, 2012, the Medical Center has approximately $4,406 included in other assets related to these agreements.

(in thousands)

(15) Retirement Plans

(a) Defined Benefit Plan

The following table at June 30, 2012 and 2011 sets forth the Plan's changes in benefit obligations, changes in plan assets, and the funded status of the Plan:

		2012	2011
Change in benefit obligation:			
Benefit obligation, beginning of year	$	366,439	359,596
Service cost		15,970	17,210
Interest cost		20,806	19,534
Plan amendments			—
Actuarial loss (gain)		60,970	(22,128)
Benefits paid		(8,888)	(7,773)
Benefit obligation, end of year	$	455,297	366,439
Change in plan assets:			
Fair value of plan assets, beginning of year	$	258,302	210,069
Actual (loss) gain on plan assets		(1,112)	34,371
Contributions made		18,993	27,809
Benefits paid		(8,888)	(7,773)
Adjustment for prior benefit payment		—	(6,174)
Fair value of plan assets, end of year	$	267,295	258,302
Funded status	$	(188,003)	(108,138)
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension cost – noncurrent	$	(188,003)	(108,138)
Unrestricted net assets		140,725	61,861
Prior service cost		315	354
Amounts recognized in unrestricted net assets – net actuarial gain	$	141,040	62,215

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2012 and 2011 were as follows:

	2012	2011
Weighted average discount rate	4.85%	5.75%
Rate of compensation increase	3.50 – 4.25%	3.50 – 4.25%

(in thousands)

Net periodic pension cost for the years ended June 30, 2012 and 2011 includes the following components:

		2012	2011
Service cost – benefits earned during the period	$	15,970	17,210
Interest cost on projected benefit obligation		20,806	19,534
Expected return on plan assets		(20,299)	(16,454)
Amortization of prior service cost		39	39
Amortization of loss		3,517	7,207
Net periodic pension cost	$	20,033	27,536

Other changes in plan assets and benefit obligations recognized in unrestricted net assets are as follows:

		2012	2011
Net actuarial (gain) loss	$	82,381	(40,046)
Prior service credit		(39)	(39)
Adjustment for prior benefit payment		—	6,174
Net actuarial gain		(3,517)	(7,207)
Total recognized in unrestricted net assets	$	78,825	(41,118)

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2012 and 2011 were as follows:

	2012	2011
Weighted average discount rate	5.75%	5.50%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	3.5 – 4.25%	4.00

(in thousands)

The defined benefit pension plan asset allocation as of the measurement date (June 30, 2012 and 2011) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2012	2011	Target allocation
U.S. equity	17%	17%	15 – 25%
Global equity	13	13	10 – 20%
Real assets	8	8	5 – 15%
Fixed income securities and cash	33	33	10 – 25%
Emerging markets	4	3	3 – 10%
Alternative investments – hedge funds	21	22	15 – 35%
Alternative investments – private equity funds	4	4	2 – 10%

FMOLHS overall expected long-term rate of return on assets is 8.0%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns, without adjustments.

FMOLHS provides investment oversight for the Medical Center's defined benefit plan. Asset allocations and investment performance are formally reviewed quarterly by the FMOLHS Investment Committee (Investment Committee). FMOLHS utilizes an investment advisor, multiple managers for different asset classes, and a separate custodian in managing the pooled funds.

The asset allocation is designed to provide a diversified mix of asset classes, including U.S. and foreign equity securities, fixed income securities, hedge funds, real-estate investment trust, and cash. The investment goals for the pooled funds are to achieve returns in the top half of a representative universe of professionally managed funds with a percentage of equity, fixed income, and alternate investments to be indicative of the asset mix policy of the fund, to exceed the return of a balanced market index weighted to replicate the asset allocation policy of the plan, to exceed the rate of inflation as measured by the Consumer Price Index (CPI) by at least 500 basis points on an annualized basis, to achieve a positive risk adjusted return, and to achieve a rate of return above the current actuarial assumption. Risk management practices include various criteria for each asset class, including measurement against various benchmarks, achievement of a positive risk adjusted return, and investment guidelines for each class of assets which enumerate types of investments allowed in each category.

The asset allocation policy provides for a range of minimum and maximum investments in each asset class to allow flexibility in achieving expected long-term rate of return. Historical return patterns and correlations, consensus return forecast and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to assure that the probability of meeting actuarial assumptions is reasonable. The Investment Committee monitors manager performance, rate of return, and risk factors on a quarterly basis and makes required adjustments to achieve expected returns.

(in thousands)

The following tables present the placement in fair value hierarchy of plan assets held at FMOLHS that are measured at fair value on a recurring basis as of June 30, 2012 and 2011:

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities:				
U.S. companies	$ 45,831	11,668	15,758	73,257
International companies	39,480	13,078	—	52,558
Real assets	17,468	13,965	—	31,433
Fixed income securities:				
U.S. government guaranteed	7,881	—	—	7,881
U.S. agency	—	11,805	—	11,805
Corporate	—	17,521	—	17,521
Municipal	—	1,252	—	1,252
Other	11,742	53,645	2,678	68,065
Emerging markets	—	7,424	8,866	16,290
Alternative asset funds:				—
Hedge funds	—	—	89,843	89,843
Private equity funds	—	—	17,565	17,565
	$ 122,402	130,358	134,710	387,470
Cash				32,597
				$ 420,067

(in thousands)

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities:				
U.S. companies	$ 41,265	12,601	14,288	68,154
International companies	39,765	12,157	—	51,922
Real assets	16,798	14,684	—	31,482
Fixed income securities:				
U.S. government guaranteed	1,511	—	—	1,511
U.S. agency	—	10,061	—	10,061
Corporate	—	28,396	—	28,396
Municipal	—	1,179	—	1,179
Other	—	41,443	1,576	43,019
Emerging markets	11,282	—	11,008	22,290
Alternative asset funds:				—
Hedge funds	—	—	90,056	90,056
Private equity funds	—	—	15,627	15,627
	$ 110,621	120,521	132,555	363,697
Cash				43,586
				$ 407,283

The Medical Center has a 64% and 63% ownership in these plan assets as of June 30, 2012 and 2011, respectively.

At June 30, 2012 and 2011, the Medical Center's defined benefit pension plan had an accumulated benefit obligation (ABO) of $395,590 and $317,623, respectively.

At June 30, 2012 and 2011, the fair value of plan assets resulted in an unfunded ABO of $128,295 and $59,321, respectively.

The Medical Center currently expects to make a contribution of approximately $19,000 to the defined benefit pension plan in fiscal year 2013. Should it become necessary, the Medical Center will fund the defined benefit pension plan as needed.

The prior service cost for the defined benefit pension plan that will be amortized from net periodic benefit credit over the next fiscal year is approximately $39. The net actuarial loss that will be amortized from net assets to periodic benefit cost over the next fiscal year is $13,465.

(Continued)

(in thousands)

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of June 30, 2012 are as follows:

Years ending June 30:		
2013	$	10,741
2014		12,229
2015		13,976
2016		15,843
2017		17,711
2018 – 2021		117,943

(b) Defined Contribution Plans

The Medical Center also sponsors 403(b) and 401(k) plans. These defined contribution plans are available to substantially all employees. No contributions are made to the plans by the Medical Center.

Effective July 1, 2006, the defined benefit pension plan was closed to new entrants and a new defined contribution plan was created for those hired after June 30, 2006, the FMOL Health System Retirement Plan (FMOL Plan). Substantially all employees of the Medical Center meeting eligibility requirements may participate in the FMOL Plan. The Medical Center may annually elect to make a contribution on behalf of those participants in an amount determined by the Medical Center. Contribution expense of $1,754 and $3,876 was recorded for the years ended June 30, 2012 and 2011, respectively.

(16) Functional Expenses

The Medical Center provides health care and other services to residents within its service area. Expenses related to providing these services for the years ended June 30, 2012 and 2011 are as follows:

		2012	2011
Healthcare services	$	577,115	551,551
General and administrative		164,971	166,189
Educational services		20,292	21,639
Fund raising		2,608	2,027
	$	764,986	741,406

(in thousands)

(17) Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments, reported in the consolidated balance sheets, except for long-term debt, approximate their estimated fair values, in all significant respects, at June 30, 2012 and 2011.

The Medical Center's financial instruments for which estimated fair values differ from their carrying amounts at June 30, 2012 and 2011 are summarized as follows:

		2012		2011	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Liabilities – long-term debt	$	211,213	228,560	220,521	224,412

(b) Fair Value Hierarchy

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2012 and 2011:

		June 30, 2012			
		Level 1	Level 2	Level 3	Total
Assets category:					
Equity securities:					
U.S. companies	$	3,550	—	—	3,550
International companies		414	—	—	414
Fixed income securities:					
Corporate		—	1,834	—	1,834
Other		—	937	—	937
Total - categorized	$	3,964	2,771	—	6,735
Assets limited as to use accounted for as cash and accrued interest – uncategorized					20,239
					$ 26,974

(Continued)

(in thousands)

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
U.S. companies	$ 3,812	—	—	3,812
Fixed income securities:				
U.S. agency	—	325	—	325
Corporate	—	1,519	—	1,519
Other	—	952	—	952
Total - categorized	$ 3,812	2,796	—	6,608
Assets limited as to use accounted for as cash and accrued interest – uncategorized				41,599
				$ 48,207

(in thousands)

The following table presents the placement in the fair value hierarchy of the composition of the investments held at FMOLHS that are measured at fair values on a recurring basis as of June 30, 2012 and 2011:

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Equity securities:				
U.S. companies	$ 51,737	—	—	51,737
International companies	54,327	—	—	54,327
Real assets	26,594	—	—	26,594
Fixed income securities:				
U.S. government guaranteed	2,975	—	—	2,975
U.S. agency	—	17,236	—	17,236
Corporate	—	30,178	—	30,178
Municipal	—	1,278	—	1,278
Other	49,390	5,253	—	54,643
Total – categorized	$ 185,023	53,945	—	238,968
Cash and cash equivalents – uncategorized				28,673
Assets limited as to use accounted for using the equity method – uncategorized				410,254
				$ 677,895

(Continued)

(in thousands)

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Equity securities:				
U.S. companies	$ 50,146	—	—	50,146
International companies	62,516	—	—	62,516
Real assets	32,775	—	—	32,775
Fixed income securities:				
U.S. government guaranteed	1,535	—	—	1,535
U.S. agency	—	12,121	—	12,121
Corporate	—	32,553	—	32,553
Municipal	—	1,465	—	1,465
Other	48,546	3,085	—	51,631
Total – categorized	$ 195,518	49,224	—	244,742
Cash and cash equivalents – uncategorized				39,516
Assets limited as to use accounted for using the equity method – uncategorized				381,238
				$ 665,496

The Medical Center's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfer into or out of Level 1, Level 2, or Level 3 for the years ended June 30, 2012 or 2011.

The investments classified as Level 2 are as follows:

- Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the Medical Center's interest therein, its classification in Level 2 is based on the Medical Center's ability to redeem its interest at or near the date of the consolidated balance sheets. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.
- Bonds whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

(c) Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(18) Insurance Programs

The Medical Center is qualified under the State of Louisiana medical malpractice program and is self-insured for the first $100 of professional liability per occurrence; additional coverage is provided by the Louisiana Patients' Compensation Fund for the next $400 of professional liability up to the present statutory maximum of $500 per claim (exclusive of additional amounts for future medical expense provided by law). Coverage in excess of such primary coverage is provided by a self-insurance trust fund, which protects the Medical Center against professional and general liability with limits of $2,000 per claim for professional liability and $1,000 per claim for general liability and $6,000 aggregate per year. An umbrella excess liability policy is shared among all FMOLHS affiliates, on a claims-made basis. In addition to professional and general liability coverage, the umbrella excess liability policy also provide automobile, helipad, and employers' liability coverage, all on an occurrence basis. Finally, the Medical Center utilizes a commercial group policy as primary coverage for claims arising against employed physicians. The group policy covers claims between $500 and $1,000. For claims exceeding $1,000, excess coverage is acquired through a series of commercial insurance products with limits equal to the FMOLHS umbrella excess liability structure.

The Medical Center participates together with the other hospitals within FMOLHS in a captive insurance company, Louise Insurance Company, Ltd. (Louise), which is wholly owned by FMOLHS. Louise underwrites the self-insured portion of professional and general liability claims on a claims-made basis. In addition, the Medical Center accrues additional amounts for incurred but not yet reported claims liabilities at each fiscal year-end. Effective July 1, 2004, Louise also underwrites the self-insured portion of workers' compensation claims on an occurrence basis.

The Medical Center's reserve for estimated professional and general liability costs included in the consolidated balance sheets is $16,316 and $16,165 as of June 30, 2012 and 2011, respectively. Claim liabilities are estimated at the present value of future claim payments using a discount rate of 3% at June 30, 2012 and 2011.

Prior to July 1, 2004, the Medical Center was self-insured for workers' compensation liability for the first $200 per claim. The workers' compensation self-insured reserves related to this run out were $704 and $1,004 as of June 30, 2012 and 2011, respectively, and are included in other current liabilities in the consolidated balance sheets. Effective July 1, 2004, the Medical Center was insured by Louise for workers' compensation claims for the first $350 per claim on an occurrence basis and have excess coverage through a third-party insurer. In July 2006, the coverage was increased to $400. Such amounts are included in

(Continued)

(in thousands)

noncurrent assets limited as to use in the accompanying consolidated balance sheets as of June 30, 2012 and 2011.

The Medical Center also offers subsidized health insurance to its employees through an employer sponsored self-insured health plan. Effective January 1, 2005, the self-insured plan obligates the Medical Center to pay the first $200 per claim. Prior to January 1, 2005, the Medical Center was obligated to pay the first $125 per claim. The health insurance self-insured reserves were $2,797 and $5,000 as of June 30, 2012 and 2011, respectively, and are included in other current liabilities in the consolidated balance sheets.

The Medical Center has reflected its estimate of the ultimate liability for known and incurred but not reported claims, including its share of claims to be paid by the captive insurance company, in the accompanying consolidated financial statements. The estimated reserves for workers' compensation and professional and general liability are based on actuarial studies. The estimated reserve for employee healthcare claims is based on actual claim history.

(19) Commitments and Contingencies

(a) Investments

As it relates to alternative assets held by FMOLHS in the investment "pool," the Medical Center is obligated under certain limited partnership agreements for advance funding up to specific levels upon the request of the general partner. See note 2(b).

(b) Lease Commitments

The Medical Center leases equipment under various rental agreements. Rental expense was $5,934 and $4,034 for the years ended June 30, 2012 and 2011, respectively. Future minimum rental payments under operating leases that have initial or remaining non-cancelable terms in excess of one year as of June 30, 2012 follow:

Year ending June 30:	
2013	$ 2,015
2014	798
2015	699
2016	384
2017	232
Thereafter	355
	$ 4,483

(in thousands)

At June 30, 2012, the Medical Center was obligated under various capital leases. Future minimum lease payments as of June 30, 2012 are as follows:

Year ending June 30:		
2013	$	1,239
2014		636
2015		237
2016		92
Total minimum lease payments		2,204
Less amounts representing interest		101
Present value of future minimum lease payments		2,103
Less current portion of capital lease obligations		1,144
Obligations under capital leases excluding current portion	$	959

The net book value of assets recorded under capital leases as of June 30, 2012 and 2011 consists of the following:

		2012	2011
Equipment	$	6,632	11,515
Less accumulated depreciation		(4,801)	(9,345)
	$	1,831	2,170

In late 2010, the FASB issued for comment *Proposed Accounting Standards Update – Leases* (Topic 840). After receiving and considering significant feedback, the FASB intends to issue a related final ASU in calendar year 2012. This new guidance is expected to require the Medical Center to recognize virtually all of its leases in the consolidated balance sheet. Assuming the ASU is in fact issued; adoption will cause considerable changes in the presentation of the Medical Center's debt and interest expense in its consolidated financial statements (among other things). Management is reviewing the implications of the proposed ASU for the Medical Center, including potential implications for many complex agreements and arrangements which might be impacted by this potential major accounting change. While that work is ongoing, management is optimistic that there will not be material issues associated with important related matters, such as overall Medical Center credit ratings or future debt covenant compliance.

(Continued)

(in thousands)

(c) Contingent Liabilities

The Medical Center has certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed the Medical Center's self-insurance reserves or insurance coverage, and will not materially affect the financial position of the Medical Center or the results of operations.

(d) Regulatory Compliance

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. The Medical Center is subject to these regulatory efforts and has a corporate compliance committee that monitor and respond to regulatory changes and any issues that may arise.

In consultation with legal counsel, management is not aware of other issues that could have a material effect on the Medical Center's financial position or results of operations.

(20) Operating Leases – Lessor

The Medical Center and its affiliates lease office space and clinical facilities, generally to members of its medical staff, under operating leases. The terms of these leases range from month-to-month to 10 years. Assets held for lease consist of buildings and improvements with an original cost of $135,204 and $132,652 at June 30, 2012 and 2011, respectively, and fixed equipment with an original cost of $11,813 and $11,758 at June 30, 2012 and 2011, respectively. Total accumulated depreciation was $51,988 and $46,562 at June 30, 2012 and 2011, respectively. Future minimum lease payments to be received at of June 30, 2012 are as follows:

Year ending June 30:	
2013	$ 7,698
2014	7,304
2015	7,204
2016	5,570
2017	5,021
Thereafter	29,074
	$ 61,871

(21) Cooperative Endeavor Agreement

As part of its mission to ensure an appropriate supply of medical professionals in its service area and improve graduate medical education in the region, the Medical Center entered into an agreement with the State of Louisiana Department of Health and Hospitals (DHH) and Louisiana State University Health Sciences (LSU) in February 2010. The parties received associated governmental approval of the agreement from the Center for Medicare and Medicaid Services (CMS) on July 13, 2010. Major components of the agreement follow:

- The Medical Center will construct a medical education building (MEB) to house LSU training programs (to be donated by the Medical Center to LSU at completion of constructions), expand its clinical capacity by 60 licensed beds, and implement a Trauma Center. The Medical Center has recorded $19,000 in other long-term liabilities in the consolidated balance sheets as of June 30, 2012 and 2011 and an associated other expense was recorded in the consolidated statement of operations for the year ended June 30, 2011 to reflect its promise to give in accordance with relevant accounting literature, related to the MEB.

- DHH will provide payments under a new reimbursement structure to the Medical Center, which are intended to compensate the Medical Center for incremental costs associated with higher Medicaid and uninsured patient volumes that are generally expected to accompany the Medical Center's increased role in LSU's graduate medical education program.

- During the year ended June 30, 2011, DHH submitted a State Plan Amendment that obligated itself to make supplemental Medicaid payments to the Medical Center equal to a total of $129,000 for the period October 1, 2009, through June 30, 2011. These amounts were received by the Medical Center during its fiscal year 2011 and were included in net patient services revenue for the year ended June 30, 2011 as a reduction in related contractual and other adjustments.

(22) Subsequent Events

On October 3, 2012, the Authority issued its Hospital Revenue Refunding Bonds (Franciscan Missionaries of Our Lady Health System Project) Series 2012A in the original amount of $56,530 (the Series 2012A Bonds) for the purpose of advance refunding its Hospital Revenue Bonds (Franciscan Missionaries of Our Lady Health System Project) Series 2005C (the Series 2005C Bonds) and paying the costs of issuance of the Series 2012A Bonds. A portion of the proceeds of the Series 2012A Bonds and other monies available to the FMOLHS were deposited in an Escrow Fund created pursuant to an Escrow Deposit Agreement dated the delivery of the Series 2012A Bonds for the purpose of defeasing and advance refunding the Series 2005C Bonds.

The Medical Center has evaluated subsequent events from the consolidated balance sheet date through October 9, 2012, the date the consolidated financial statements were issued, and determined there are no other items to disclose or recognize in the consolidated financial statements as of and for the year ended June 30, 2012.

SUPPLEMENTAL SCHEDULE

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Schedule of Service to the Community

June 30, 2012 and 2011

Unaudited

(In thousands)

The Medical Center participates in government programs, including Medicare, Medicaid, and the TriCare program. Under these programs, the Medical Center provides care to patients at payment rates that are determined by the federal and state governments, regardless of actual cost. In some cases, these programs pay the Medical Center at amounts that are less than its cost of providing services.

The following table summarizes the amounts of charges foregone (i.e., contractual allowances) and the estimated losses incurred by the Medical Center due to inadequate payments by these programs and for charity for the years ended June 30, 2012 and 2011. This table does not include discounts offered by the Medical Center under managed care or other such arrangements.

		2012		2011	
		Charges foregone	**Net community benefit expense**	**Charges foregone**	**Net community benefit expense**
Charity care and means-tested programs:					
Charity care	$	11,429	4,468	13,835	6,489
Unreimbursed Medicaid		153,554	28,174	144,678	29,333
Unreimbursed Medicare		292,829	20,680	256,867	14,392
Total	$	457,812	53,322	415,380	50,214

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Schedule of Service to the Community

June 30, 2012 and 2011

Unaudited

(In thousands)

In addition to community services directly associated with providing hospital-based care, the Medical Center serves the community in numerous other ways. The method for estimating costs of community services was revised for fiscal year 2012 to reflect the Internal Revenue Service's guidelines for Form 990, *Return of Organization Exempt from Income Tax*. The following table for the years ended June 30, 2012 and 2011 summarizes estimated costs to the community services:

		2012	2011
Community benefit at cost:			
Community health improvement services:			
Immunological support	$	826	852
Parish Nursing		129	182
LakeLine Direct		1,103	1,187
St. Martha Activity Center		160	102
Elderly services		279	287
Healthcare professions education:			
OLOL College		3,175	6,271
Interns and residents		3,499	4,263
Subsidized health services:			
Assumption Community Hospital		37	1,429
Elderly Housing St. Clare		2,439	1,902
Family education and Children Speciality Service		4,985	3,274
OLOL neighborhood clinic		48	59
COPE and Mental Health Services		10,635	6,545
Palliative care		569	484
St. Francis House		24	38
Other Speciality Services		4,079	
Medical Home		1,086	912
Trauma Services		1,367	1,367
Research:			
Clinical research		561	611
Financial contributions:			
Cash contributions		774	747
Community-building activities:			
Elderly housing complex		502	611
Mary Bird Perkins		100	100
Community clinic		29	29
Medical Education Building		—	19,000
	$	36,406	50,252

(Continued)

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Schedule of Service to the Community

June 30, 2012 and 2011

Unaudited

(In thousands)

Community Health Improvement Services

Immunological Support

The Medical Center organized, owns and operates a home which is designed to help the members of the community who have contracted acquired immune deficiency syndrome (AIDS) to deal with the very debilitating physical, social, and psychological problems associated with the disease.

Parish Nurse Program

To assist in education of the community regarding health related issues, the medical center participates in numerous health fairs and sponsors talks to various schools and industry groups regarding such issues as drug abuse and safety in the work place.

LakeLine Direct

The Medical Center operates a nurse call center, LakeLine Direct, offering complimentary 24-hour nurse advice, health information aid, and physician referral service to the community.

St. Martha Activity Center

The Medical Center provides an activity center located at the elderly housing facility for the residents of the housing facility as well as other elderly community meetings.

Elderly Services

The Medical Center sponsors and incurs the salary of the Director of the HUD housing facility, Pastoral Care Associate and Medical Director of Elderly Services.

Elderly Housing

Ollie Steel Burden Manor, a subsidiary of the Medical Center, operates St. Clare Manor which has 216 total beds, of which 120 are Medicaid licensed.

Health Care Professions Education

OLOL College

In an effort to ensure that an adequate supply of nurses are available for the Baton Rouge community, the Medical Center founded and organized the College. The Medical Center subsidizes the operations of the College with grants.

Interns and Residents

The Medical Center participates in Medicare's Graduate Medical Education through affiliation with Louisiana Medical School and Medical Center of Louisiana at New Orleans to continue to support availability of physicians in future years.

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Schedule of Service to the Community

June 30, 2012 and 2011

Unaudited

(In thousands)

Subsidized Health Services

Family Education

The Medical Center promotes a healthy environment for the family through it pediatric programs, which include Kid-Med Clinic, Pediatric Assessment Center and child life programs.

OLOL Neighborhood Clinic

The Medical Center operates a Scotlandville Clinic to provide walk-in care for minor illness and injury during evening and weekends.

COPE

The Medical Center provides crisis oriented psychiatric evaluation (COPE) to the community.

Palliative Care

The Medical Center provides palliative care service for patients in the final stage of life and their family members.

Research

Clinical Research

The Medical Center participates in clinical research projects to improve the health and care of patients and community members.

Financial Contributions

Cash Contributions

The Medical Center also organizes employee participation in fund raising for organizations such as Capital Area United Way, March of Dimes of America, Junior Achievement, Cystic Fibrosis and the Community Fund for the Arts. The Medical Center also makes corporate donations to various area community service organizations.

Community-Building Activities

Elderly Housing Complex

The Medical Center operates four elderly housing projects: Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc. and Chateau Louise, Inc. These projects are designed to promote the health, security and happiness of the elderly and handicapped persons of the Greater Baton Rouge area.

(Continued)

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Schedule of Service to the Community

June 30, 2012 and 2011

Unaudited

(In thousands)

Mary Bird Perkins

The Medical Center also sponsors the charitable activities of other not-for-profit organizations in Baton Rouge. The Medical Center provides land adjoining the Medical Center to Mary Bird Perkins Cancer Center for its operations and forgoes all rental income for the use of this land.

Community Clinic

The Medical Center provides a building that sponsors a community clinic and foregoes all rental income related to the use of the building.

KPMG

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Report on Federal Awards in Accordance with OMB Circular A-133

Year ended June 30, 2012

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Table of Contents

KPMG

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Our Lady of the Lake Hospital, Inc.:

We have audited the consolidated financial statements of Our Lady of the Lake Hospital, Inc. and affiliated organizations (the Medical Center) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Medical Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

KPMG

* * * * * * *

This report is intended solely for the information and use of the board of trustees, management, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 9, 2012

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
Our Lady of the Lake Hospital, Inc.:

Compliance

We have audited Our Lady of the Lake Hospital, Inc. and affiliated organizations' (the Medical Center) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* (Compliance Supplement) that could have a direct and material effect on each of the Medical Center's major federal programs for the year ended June 30, 2012. The Medical Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Medical Center's management. Our responsibility is to express an opinion on the Medical Center's compliance based on our audit.

The Medical Center's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., which collectively received $12,484,263 in federal awards, which is not included in the Medical Center's accompanying schedule of expenditures of federal awards for the year ended June 30, 2012. Our audit, described below, did not include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. because those U.S. Housing and Urban Development (HUD) Projects listed above arranged to have separate audits performed in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Medical Center's compliance with those requirements.

In our opinion, the Medical Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-01 and 2012-02.

Internal Control over Compliance

Management of the Medical Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Medical Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the consolidated financial statements of the Medical Center as of and for the year ended June 30, 2012, and have issued our report thereon dated October 9, 2012, which contained an unqualified opinion on those consolidated financial statements. Our report states that the consolidating information included in the schedule to the consolidated financial statements is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual organizations. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to October 9, 2012. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

* * * * * * *

KPMG

The Medical Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Medical Center's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the board of trustees, management, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 14, 2012, except as to the
paragraph relating to the schedule of
expenditures of federal awards,
which is as of October 9, 2012

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal sponsor/Program title	CFDA number	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures	Loan disbursement
Student Financial Aid Cluster*:							
U.S. Department of Education							
Federal Work-Study Program (FWS)	84.033			$ 82,482	—	82,482	—
Federal Supplemental Education Opportunity Grant Program (FSEOG)	84.007			98,812	—	98,812	—
Federal Pell Grant Program (PELL)	84.063			2,430,779	—	2,430,779	—
Federal Direct Student Loans (Direct Loan)	84.268			—	—	—	16,332,102
Total Student Financial Aid Cluster				2,612,073	—	2,612,073	16,332,102
Other Financial Assistance:							
U.S. Department of Education:							
Strengthening Institutions Program (SIP)	84.031			151,840	—	151,840	—
U.S. Department of Housing and Urban Development:							
Emergency Shelter Grants Program (ESG)	14.231	not available	City of Baton Rouge	—	2,687	2,687	—
Supportive Housing Program (SHP)	14.235	not available	City of Baton Rouge	—	38,950	38,950	—
Housing Opportunities for Persons with AIDS	14.241	not available	City of Baton Rouge	—	243,149	243,149	—
Total U.S. Department of Housing and Urban Development				—	284,786	284,786	—
U.S. Department of Health and Human Services:							
Assumption Community Hospital – State Rural Hospital Flexibility Program	93.241			1,100	—	1,100	—
Assumption Community Hospital – Small Rural Hospital Improvement Grant Program (SHIP)	93.301			7,489	—	7,489	—
Health Care Centers in Schools – Affordable Care Act	93.501			129,179	—	129,179	—
Health Resources and Services Administration (HRSA)	93.884	D58HP23261-01-00	Louisiana Public Health Institute (LPHI)	—	70,388	70,388	—
Hospital Preparedness Program	93.889	not available	Louisiana Public Health Institute (LPHI)	—	34,885	34,885	—
Assumption Community Hospital – Hospital Preparedness Program	93.889	not available	Louisiana Public Health Institute (LPHI)	—	12,330	12,330	—
Total CFDA				—	47,215	47,215	—
Total U.S. Department of Health and Human Services				137,768	117,603	255,371	—
U.S. Department of Labor:							
Workforce Investment Act (WIA) – Adult Program	17.258	not available	Local Workforce Investment Boards	—	46,697	46,697	—
Corporation for National and Community Service:							
Senior Companion Program (SCP)	94.016			202,679	—	202,679	—
Total federal expenditures				$ 3,104,360	449,086	3,553,446	16,332,102

* Denotes a major program

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Our Lady of the Lake Hospital, Inc. and affiliated organizations (the Medical Center) under programs of the federal government for the year ended June 30, 2012. The Medical Center's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., which collectively received $12,484,263 in federal awards, which is not included in the Schedule. The amounts reported as federal expenditures were obtained from the Medical Center's general ledger. Because the Schedule presents only a selected portion of the operations of the Medical Center, it is not intended to and does not present the financial position, results of operations, changes in net assets, and cash flows of the Medical Center.

For purposes of the Schedule, federal expenditures include all grants, contracts, and similar agreements entered into directly between the Medical Center, the agencies and departments of the federal government, and all subawards to the Medical Center by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The information in the Schedule is presented in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

(2) Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures of federal award programs are recognized on the accrual basis of accounting.

(3) Federal Direct Student Loans

The Medical Center's Federal Direct Student Loans (Direct Loans) included in the Schedule represent loans received by students during fiscal year 2012, which were not made by the Medical Center.

During the year ended June 30, 2012, the Medical Center expended the following amount of new loans under the Direct Loan Program:

	CFDA number		Amount expended
Unsubsidized direct loans	84.268	$	7,658,406
Subsidized direct loans	84.268		5,358,074
Parents' loans for undergraduate students	84.268		282,518
Parents' loans for graduate students	84.268		3,033,104
Total		$	16,332,102

(Continued)

(4) Relationship to Consolidated Financial Statements

Federal expenditures are reported in the Medical Center's consolidated financial statements as follows:

Total expenditures under federal grants and contracts included in other revenue in the consolidated financial statements of the Medical Center	$	1,122,667
Federal Pell Grant Program – agency transactions		2,430,779
Federal expenditures per the Schedule	$	3,553,446

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ yes	x no
Significant deficiency(ies) identified not considered to be material weaknesses?	____ yes	x none reported
Noncompliance material to financial statement noted?	____ yes	x no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ yes	x no
Significant deficiency(ies) identified not considered to be material weaknesses?	____ yes	x none reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	x yes	____ no

Identification of major programs:

CFDA numbers	Name of federal program or cluster
84.033, 84.007, 84.063, and 84.268	Student Financial Aid Cluster/U.S. Department of Education

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000	
Auditee qualified as low-risk auditee?	x yes	____ no

(2) Findings Related to the Consolidated Financial Statements Reported in Accordance with *Government Auditing Standards*

There were no findings relating to the consolidated financial statements reported in accordance with *Government Auditing Standards* for the year ended June 30, 2012.

(3) Findings and Questioned Costs Related to Federal Awards

Finding No. 2012-01 – Federal Direct Student Loans – Disbursements

Federal Program

Federal Direct Student Loans

CFDA #

84.268

Federal Agency

U.S. Department of Education

Federal Award Year

July 1, 2011 through June 30, 2012

Criteria

Per 34 CFR Section 668.165(a), if an institution credits a student's account at the institution with a direct loan, the institution must notify the student, or parent in writing, of (1) the date and amount of the disbursement; (2) the student's right, or parent's right, to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan; and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan.

Condition

During our testwork related to notifications for direct loan participants, we noted notification letters were not sent for 2 out of 25 students receiving direct loans for the Fall 2011 semester and for 21 out of 25 students receiving direct loans for the Spring 2012 semester.

Questioned Costs

No questioned costs are associated with this finding.

Context

A change in information technology caused the listing of students requiring notifications to be incomplete. The report was only identifying the student's first loan disbursement record. As a result, there were 2,216 loan disbursement records that were excluded.

Effect

The Medical Center did not comply with the requirements over notifications for students receiving direct loans.

(Continued)

Recommendation

We recommend that management strengthen the Medical Center's policies and procedures to ensure that future notifications are sent timely.

Management Response

Management agrees with the finding and has since remediated the deficiency.

Finding No. 2012-02 – Direct Loan Program – Special Tests: Enrollment Reporting

Federal Program

Federal Pell Grant Program

CFDA #

84.063

Federal Agency

U.S. Department of Education

Federal Award Year

July 1, 2011 through June 30, 2012

Criteria

Per 34 CFR Section 685.309, a school must notify the Department of Education within 30 days of discovering that a direct loan has been made to or on behalf of a student who has had certain status changes.

Condition

During our testwork related to enrollment reporting, we noted 2 out of our sample of 25 students with status changes that were not correctly reported to the Department of Education.

Questioned Costs

No questioned costs are associated with this finding.

Context

Management was submitting status change reports timely. However, due to an error caused by the system pulling census data as of an incorrect date, the status changes being reported were incorrect in instances where there was a change in status after this date.

Effect

The Medical Center did not comply with the requirements over enrollment reporting.

(Continued)

Recommendation

We recommend that management strengthen the Medical Center's policies and procedures to ensure that future status changes are reported timely.

Management Response

Management agrees with the finding and has since remediated the deficiency.

Our Lady of the Lake Hospital, Inc.
Summary Schedule of Prior Audit Findings
Year ended June 30, 2012

Finding No. 2011-01 Schedule of Expenditures of Federal Awards - Reporting

Criteria
OMB Circular A-122 (A-122) establishes principles for determining the costs applicable to activities performed by non-profit organizations under grants, contracts, and other agreements with the federal government. In accordance with A-122, allowable expenditures must be adequately documented in the Schedule of Expenditures of Federal Awards (SEFA).

Condition
During our major program completeness and accuracy testing over the SEFA for federal grant revenue received by St. Bernard Health Center, Inc., we noted that the total allowable expenditures were not properly reported.

We also noted during our completeness and accuracy testing over the SEFA that the Federal Smart Grant and the following non-major programs, Emergency Shelter Grants Program, Supportive Housing Program, Housing Opportunities for Persons with AIDS, Assumption Community Hospital – Small Rural Hospital Improvement Grant Program, and St. Bernard – Medical Assistance Program: Greater New Orleans Community Health Connection, were not properly reported on the initial SEFA. Subsequent to our testing, the amount of allowable expenditures recorded on the general ledger management prepared was properly reflected on the SEFA.

Questioned Costs
None.

Context
Procedures in place are not adequate to ensure the amounts reported as allowable expenditures for each program reconcile to the amount recorded on the general ledger.

Effect
The Medical Center did not initially report all federal expenditures that were recorded on the general ledger for in the SEFA.

Recommendation
We recommend that the Medical Center should establish policies and procedures to ensure adequate documentation relative to Federal expenditures related to each grant are maintained and that there is a timely reconciliation between allowable charges and amounts captured within the general ledger.

Finding Status
The Medical Center implemented additional methods of communication with the program administrators, including an annual conference call before the end of each fiscal year. The accounting staff also implemented an additional review process to ensure the expenses reported by the program administrators are consistent with the guidelines.

Our Lady of the Lake Hospital, Inc.
Summary Schedule of Prior Audit Findings
Year ended June 30, 2012

Finding No. 2011-02 Health Care and Other Facilities – Cash Management

Federal Program:
Health Care and Other Facilities

Federal Agency
U.S. Department of Health and Human Services

CFDA #:
93.887

Federal Award Year:
July 1, 2010 through June 30, 2011

Criteria
OMB Circular A-133 establishes principles around cash management. The grant agreement between the Medical Center and the Department of Health and Human Services was for the purchase of equipment and specifically required that grant funds be drawn down as costs are incurred.

Condition
During our test work related to the Health Care and Other Facilities grant, we noted that cash draws were made and funded to the Medical Center prior to the purchase of the equipment.

Questioned Costs
None.

Context
Controls in place were not adequate to ensure compliance with cash management requirements for the Health Care and Other Facilities program. Amounts totaling $882,558 were drawn between 20 and 173 days prior to the related purchase of the federal equipment under the grant.

Effect
The Medical Center did not comply with the terms of the grant agreement regarding the cash draws for the equipment purchases.

Recommendation
We recommend that management strengthen the Medical Center's processes and controls to ensure that grant agreements are reviewed to ensure compliance with all requirements.

Finding Status
The Medical Center implemented an annual meeting with program administrators to review compliance with grants requirements, including the process for requesting funds.

OUR LADY OF THE LAKE
REGIONAL MEDICAL CENTER
Franciscan Missionaries of Our Lady Health System

December 14, 2012

KPMG LLP
450 Laurel Street
Suite 1700
Baton Rouge, LA 70801

Ladies and Gentlemen:

We are providing this letter to confirm our understanding that the purpose of your testing of transactions and records relating to Our Lady of the Lake Hospital, Inc. and affiliated organizations (the Medical Center) federal programs (A-133 audit) was to obtain reasonable assurance that the Medical Center had complied, in all material respects, with the requirements of laws, regulations, contracts, and grants that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. We reaffirm the representations made to you in our letter dated October 9, 2012.

Additionally we confirm, to the best of our knowledge and belief, the following representations made to you during your A-133 audit:

1. We are responsible for establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements.

2. We are responsible for understanding and complying with the requirements of laws and regulations and the provisions of contracts and grant agreements related to each of its federal programs.

3. We are responsible for taking corrective action on audit findings of the compliance audit.

4. We are responsible for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal programs. We have no knowledge of any fraud or suspected fraud affecting the entity's federal programs involving:

a. Management, including management involved in the administration of federal programs

b. Employees who have significant roles in internal control over the administration of federal programs

c. Others where the fraud could have a material effect on compliance with laws and regulations, and provisions of contract and grant agreements related to its federal programs.

5. We are responsible for the presentation of the SEFA in accordance with OMB Circular A-133 and:

   a. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period.

   b. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.

Additionally, we confirm, to the best of our knowledge and belief, the following representations made to you during your A-133 audit:

6. We are responsible for complying, and have complied, with the requirements of OMB Circular A-133.

7. The Medical Center has prepared the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 and has included all expenditures made during the year ended June 30, 2012 for all awards provided by federal agencies in the form of grants, American Recovery and Reinvestment Act (ARRA), federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance. The Medical Center has appropriately identified and separated all American Recovery and Reinvestment Act (ARRA) awards, if any, within the SEFA.

8. The Medical Center has complied with requirements of laws and regulations, and the provisions of contracts and grant agreements related to each of its federal programs.

9. The Medical Center has disclosed to you any interpretations of any compliance requirements that have varying interpretations.

10. The Medical Center established and maintained effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on a federal program.

11. We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over compliance that we have identified which could adversely affect the Medical Center's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, and the provisions of contracts and grant agreements. Under standards established by the American Institute of Certified Public Accountants, a deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct on a timely basis noncompliance with a type of compliance requirement of a federal program. A "material weakness" is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected on a timely basis. A "significant deficiency" is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement that, is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

12. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

13. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities related to major federal programs.

14. We have made available all documentation related to the compliance requirements, including information related to federal financial reports and claims for advances and reimbursements for major federal programs.

15. We have identified and disclosed to you all questioned costs and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.

16. We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

17. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

18. The Medical Center is in compliance with documentation requirements contained in OMB Circular A-21, "Cost Principles for Educational Institutions" and A-122, "Cost Principles for Non-Profit Organizations" for all costs charged to federal awards, including both direct costs and indirect costs charged through indirect cost rate proposals. Costs charged to federal awards are considered allowable under the applicable cost principles contained in OMB Circular A-21 and A-122.

19. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.

20. The copies of federal financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

21. If applicable, we have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133. If applicable, the we have has issued management decisions on a timely basis after receipt of subrecipient audit reports that identified non-compliance with laws, regulations, or the provisions of contracts or grant agreements and has ensured that subrecipients have taken appropriate and timely corrective action on such findings.

22. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to our own accounting records.

23. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.

24. If applicable, the Medical Center has provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

25. The Medical Center has accurately completed Part I of the data collection form.

26. The Medical Center has advised you of all contracts or other agreements with service organizations.

27. If applicable, the Medical Center has disclosed to you all communications from its service organizations relating to noncompliance at the service organizations.

28. The Medical Center has disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.

29. The Medical Center has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to the date as to which compliance is audited.

30. The Medical Center has advised you that it does not participate(s) in the zone alternative.

31. The Medical Center has disclosed to you all known legal proceedings that have been initiated against the Medical Center for any violation of any loan agreements or any failure to pay creditors.

Very truly yours,

Our Lady of the Lake Hospital, Inc. and Affiliated Organizations

Jeffrey Limbocker

CFO

Scott Wester

CEO

Amanda Hymel

OLOL Director of Accounting

Tiffany Magee

OLOL College Director of Financial Aid

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS
Corrective Action Plan
Year ended June 30, 2012

Finding No. 2012-01 – Federal Direct Student Loans – Disbursements

Federal Program
Federal Direct Student Loans

CFDA #
84.268

Federal Agency
U.S. Department of Education

Federal Award Year
July 1, 2011 through June 30, 2012

Criteria
Per 34 CFR Section 668.165(a), if an institution credits a student's account at the institution with a direct loan, the institution must notify the student, or parent in writing of (1) the date and amount of the disbursement; (2) the student's right, or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan; and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan.

Condition
During our test work related to notifications for direct loan participants, we noted notification letters were not sent for 2 out of 25 students receiving direct loans for the Fall 2011 semester and for 21 out of 25 students receiving direct loans for the Spring 2012 semester.

Questioned Costs
No questioned costs are associated with this finding.

Context
A change in information technology caused the listing of students requiring notifications to be incomplete. The report was only identifying the student's first loan disbursement record. As a result, there were 2,216 loan disbursement records that were excluded.

Effect
The Medical Center did not comply with the requirements over notifications for students receiving direct loans.

Recommendation
We recommend that management strengthen the Medical Center's policies and procedures to ensure that future notifications are sent timely.

Management Response
Management agrees with the finding and has since remediated the deficiency.

Corrective Action Plan
Corrective action has been taken and remediated by modifying the Crystal Report used to generate the loan disbursement notifications. The report now captures all loan disbursements. Date of completion: August 2012

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS
Corrective Action Plan
Year ended June 30, 2012

Finding No. 2012-02 – Direct Loan Program – Special Tests: Enrollment Reporting

Federal Program
Federal Pell Grant Program

CFDA #
84.063

Federal Agency
U.S. Department of Education

Federal Award Year
July 1, 2011 through June 30, 2012

Criteria
Per 34 CFR Section 685.309, a school must notify the Department of Education within 30 days of discovering that a direct loan has been made to or on behalf of a student who has had certain status changes.

Condition
During our test work related to enrollment reporting, we noted 2 out of our sample of 25 students with status changes that were not correctly reported to the Department of Education.

Questioned Costs
No questioned costs are associated with this finding.

Context
Management was submitting status change reports timely. However, due to an error caused by the system pulling census data as of an incorrect date, the status changes being reported were incorrect in instances where there was a change in status after this date.

Effect
The Medical Center did not comply with the requirements over enrollment reporting.

Recommendation
We recommend that management strengthen the Medical Center's policies and procedures to ensure that future status changes are reported timely.

Management Response
Management agrees with the finding and has since remediated the deficiency.

Corrective Action Plan
Corrective action has been taken and remediated by changing Return of Title IV Funds (R2T4) procedures. All returns of Title Funds will be handled by one person. Date of completion: October 2012